

DEPARTMENT OF THE NAVY
Office of the Secretary
Washington DC 20350-1000

SECNAVINST 5740.25C
ASN(FM&C): FMO-31
14 April 1997

SECNAV INSTRUCTION 5740.25C

From: Secretary of the Navy
To: All Ships and Stations

Subj: RELATIONS WITH THE OFFICE OF
THE ASSISTANT INSPECTOR
GENERAL FOR AUDITING (AIG(A)),
DEPARTMENT OF DEFENSE

Ref: (a) DOD Directive 7600.2 of 2 Feb 91
(NOTAL)
(b) DOD Directive 5106.1 of 14 Mar 83
(NOTAL)
(c) DOD Instruction 7050.3 of 9 Nov 84
(NOTAL)

Encl: (1) Administrative Relationships with
the AIG(A)
(2) Preparation and Processing
Responses to AIG(A) Reports
(3) Access to and Release of DON
Records and Reports

1. Purpose. To provide guidance and direction to Department of the Navy (DON) activities for relations with the AIG(A) under the provisions of references (a) and (b) and to establish responsibilities and procedures for:

a. Working with AIG(A) when they are conducting audits of DON activities;

b. Ensuring DON comments on AIG(A) draft or final reports are timely, responsive, and representative of the DON position; and

c. Granting/denying access to DON records and information.

This revision updates organizational designations within the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller). Policy and procedures contained in the body of this instruction remain the same.

2. Cancellation. SECNAVINST 5740.25B.

3. Background. The Department of Defense Inspector General (DODIG) has the responsibility to conduct, supervise, monitor and initiate audits and investigations relating to programs and operations of the Department of Defense (DOD) per Public Law 95-452, Section 4(a), as set forth in reference (b). The AIG(A) is the auditing organization within the office of the DODIG. The main objective of AIG(A) audits is to identify opportunities to reduce the costs of DOD programs and operations, and to prevent the unnecessary or uneconomical expenditure of DOD funds. The AIG(A) utilizes the Naval Audit Service (NAVAUDSVC) and audit organizations in other DOD components when conducting interservice audits. The AIG(A) coordinates its audit plans with those of the NAVAUDSVC and the General Accounting Office (GAO) to avoid duplication. Audit coverage by the AIG(A) includes:

a. Internal audits of the Unified Commands and their Military Assistance Advisory Groups and Missions.

b. Audits of selected aspects of operations involving 2 or more DOD Components (interservice audits).

c. Audits of the entire procurement process, including the performance of contractors and DOD contracting officials.

d. Audits of activities, programs or functions solely within one of the Military Services, if the cognizant Military Service audit activity is unable to provide the audit coverage needed.

e. Other audits as the DODIG considers appropriate.

4. Policy. DON policy is to cooperate fully with the AIG(A), to facilitate their audit operations to the maximum practicable extent, and to derive full advantage of the AIG(A) findings and recommendations in the interest of improving the DON. Details are provided in enclosures (1), (2), and (3).



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5. Responsibilities

a. The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) shall serve as the DON central liaison with the AIG(A).

b. The Office of Financial Operations (Management Accountability and Control Division) (FMO-31) will act as the central liaison with the staff of AIG(A) and the DON. This includes:

(1) Providing guidance and assistance to DON personnel participating in an audit.

(2) Distributing correspondence pertinent to announced audits and designating action offices.

(3) Distributing each audit report to the designated action offices.

(4) Providing evaluative analyses of audit report findings and recommendations for budget analyses and DON management.

(5) Assigning responsibility to prepare the DON response to audit reports for appropriate ASN signature.

(6) Providing guidance and assistance to action offices in the preparation of responses and administrative procedures pertaining to receipt, assignment, review, evaluation and release of such responses.

(7) Controlling and monitoring progress of the preparation of the response to assure prompt, timely reaction to reports.

c. The DON action office, for purposes of this instruction, is defined as the DON organization assigned cognizance over the subject matter the AIG(A) is auditing. DON action offices include offices of the Secretariat, Chief of Naval Operations (CNO), Commandant of the Marine Corps (CMC), headquarters commands (Commander in Chief, U.S. Atlantic Fleet and Commander in Chief, U.S. Pacific Fleet) and selected commands. DON action offices shall:

(1) Issue instructions to ease the conduct of audits, ensuring responses to reports are prepared in a timely and responsive manner.

(2) Maintain a central contact point responsible for: (a) Maintaining liaison with FMO-31; (b) Ensuring the internal distribution of reports; (c) Assigning internal responsibility for action on reports; (d) Ensuring compliance with the time schedules for responses established by FMO-31 or the designated action office; (e) Ensuring implementation of the corrective action required on the concurred-in recommendations of an AIG(A) report; (f) Considering the applicability of the report findings to functions of the organization not covered by the report; (g) Ensuring all responsibilities assigned to the action office are carried out; and (h) Obtaining activities legal review, as appropriate, on responses.

(3) Establish the contact point at a level within the organization which will ensure prompt and effective discharge of the responsibilities assigned.

(4) Provide and keep current the name, code, and telephone number of the designated contact point to FMO-31.

6. General Procedures

a. When a response to a report referred to the Secretary of the Navy (SECNAV) is required, FMO-31 shall request the head of the appropriate DON organization to prepare a written reply on behalf of SECNAV. Other organizations may be requested to provide comments to the organization preparing the reply. Comments should be coordinated through each organization's audit liaison office. A current list of audit liaison offices is available from FMO-31.

b. Sufficient priority shall be given to AIG(A) draft and final report responses to meet due dates. Normally, the AIG(A) requires comments within 60 days of the date of the audit report. Failure to submit comments on the draft report within the assigned 60 days could result in the final report being published and distributed to Congress and

others without a DON management position. When the reply must be unavoidably delayed, an interim response addressing as many findings, conclusions and recommendations as possible shall be forwarded. The interim response shall state when a final response will be made.

7. Reports. The reports required by this instruction are exempt from reports control by SECNAVINST 5214.2B.

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Assistant Secretary of the Navy
(Financial Management and Comptroller)

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ADMINISTRATIVE RELATIONSHIPS WITH THE AIG(A)

The following procedures are applicable to all AIG(A) audits.

1. Announcements. AIG(A) auditors are authorized direct access to and communications with DON personnel. The AIG(A) will advise the DON of a planned audit (hereinafter called an assignment) by memorandum addressed to the ASN(FM&C). The announcement describes the nature, scope, objectives, time frame, and locations to be visited, if known. Each announcement will be identified by an assignment (project) number. FMO-31 will ensure distribution of the announcement to DON offices having an apparent interest.

2. Notices of Visit and Security Clearances. By separate correspondence, the AIG(A) will advise each location to be visited of the date(s) of visit(s); the names, grades and security clearance of AIG(A) personnel involved; and a copy of the assignment announcement. The AIG(A) will provide advice of visit as far in advance as possible. When feasible, such advice will be provided at least 10 days prior to an intended visit and 30 days in advance for a visit to a ship. The AIG(A) will also provide a copy of the notice of visit and security clearance correspondence to FMO-31. The audited activity will allow the auditors to proceed on unclassified matters upon presentation of proper credentials, and in the case of classified matters, upon verification of required security clearance.

3. Entrance Conference. An entrance/opening conference between auditors and pertinent command representatives is strongly recommended. The purpose of this conference is to gain a mutual understanding of the audit background, scope, specific objectives, time frame, locations to be visited, audit methods to be employed and milestones for completion.

4. Action Office. FMO-31 will assign an action office, when appropriate, to act as a point of contact in the DON for the particular assignment. Generally the action office will:

- a. Ensure that necessary security clearances are validated.
- b. Arrange for AIG(A) personnel to meet command personnel or visit other offices or installations if necessary to the

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assignment. The action office should initiate such action via the designated central contact point (see paragraph 8).

c. Provide or arrange for briefings.

d. Make temporary working space available or assist in obtaining an acceptable worksite.

e. Arrange for access to records, documents and other data that are properly authorized for release to the AIG(A).

f. Arrange for entry and exit conference between AIG(A) auditors and DON management officials.

g. As a result of AIG(A) auditor visits, prepare a report of substantive issues, findings or conclusions, or a listing of documents provided to AIG(A) auditors that are considered to be of interest to the DON management. Copies should be provided, as applicable, to appropriate command levels.

h. Prepare and coordinate the DON response to an AIG(A) draft or final report, and follow up periodically on AIG(A) recommendations until action is considered complete.

5. Visits to Fleet Headquarters and Subordinate Commands. When the AIG(A) needs to visit fleet headquarters and/or subordinate commands, the designated action office should determine if a subject area briefing should be provided to the AIG(A). This briefing should be provided to ensure the auditors will arrive at fleet activities familiar with the subject matter. When such a briefing is provided to AIG(A) personnel, the action office will advise the fleet commanders in chief by message or correspondence, contingent upon the need for expeditious notification, of: (1) planned dates and specific locations to be visited by AIG(A) auditors; (2) substance of briefings provided the auditors by the action office (and other DON offices in Washington, if involved); (3) areas of special interest evidenced by the auditors; and (4) identification of documentation provided to auditors (forward copies of documentation or extracts, as appropriate, to the fleet commanders in chief if not held by them).

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6. Visits to Ships, Squadrons, and Fleet Marine Force (FMF) Units. AIG(A) audits may involve visits to ships, squadrons, and FMF units. The fleet commanders in chief and commanders, FMF are authorized to arrange for AIG(A) visits to ship and FMF units in accordance with the provisions of this paragraph. Such authority may be delegated, if considered appropriate. Such visits should be planned, consistent with AIG(A) requirements, not to interfere with normal operations nor with activities contributing to personnel morale and will not be permitted to interfere with essential operations. Visits to ships, squadrons, and FMF units while in a combat zone, or to ships, squadrons, and FMF units still deployed but temporarily out of the combat zone for purposes of provisioning, minor repairs or rehabilitation, and scheduled for immediate return to a combat zone, will not be authorized without specific approval of the Secretary of the Navy (SECNAV). A report on each AIG(A) visit to a ship, squadron, or FMF unit will be prepared per subparagraph 4g and forwarded to CNO or the CMC via the chain of command as appropriate. Questions or problems in connection with these visits will be referred expeditiously to CNO or CMC, as applicable. The AIG(A) work assignment code number must be included on all communications.

7. Exit Conference. AIG(A) auditors will hold an exit conference with management officials to confirm the accuracy of facts compiled during their audit. They may discuss with management their audit findings to ensure there is a mutual understanding of the audit results and obtain management's intentions for solving deficiencies. The exit conference provides an excellent opportunity for managers and auditors to resolve as many disagreements as possible prior to the issuance of an audit report. The objective and constructive exchange of ideas and information during the conference encourages the resolution of issues and differences generated as a result of the audit. It is appropriate for DON management officials to discuss (affirm, refute, or correct) alleged savings or cost avoidance, when applicable. DON comments obtained at an exit conference must be considered as preliminary and unofficial. Official DON comments are provided only after receipt of a draft or final report from AIG(A). Written responses to draft/final reports will be signed out by an authorized management official, generally an ASN.

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8. Central contact points. Each DON action office will maintain a central contact point who will act as liaison to FMO-31. The contact point will be established at a level within the organization which will ensure prompt and effective discharge of the responsibilities. Each action office will provide, and keep current, the name, code and telephone number of the designated central contact point to FMO-31.

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PREPARATION AND PROCESSING RESPONSES TO AIG(A) REPORTS

The following applies to preparing and processing responses to AIG(A) draft and final reports.

1. Background. Reports, draft and final, are forwarded by AIG(A) to FMO-31 for appropriate action. The AIG(A), in its transmittal memorandum, will identify the DOD components tasked to provide a response to the report and the due date for such response. FMO-31 will assign an action office to prepare and coordinate the response to the report and will ensure distribution of reports to all commands and activities determined to have an interest. An office of the DON is designated as the action office when the report contains matters for which it has principal management responsibility and/or policy cognizance. The other DON offices having an interest in the report are considered to be collateral action offices. Because of time constraints, the collateral action offices must review the report immediately upon receipt and begin preparation of their input without a formal request for comments from the DON designated action office. Offices receiving copies of AIG(A) reports as information addressees are expected to volunteer input to the action office, whenever considered appropriate, even though not tasked to do so by either the action office or FMO-31.

a. Any command or CNO office receiving an AIG(A) report covered by this instruction which does not indicate that the report has been forwarded by FMO-31, will notify FMO-31 immediately, so arrangements can be made for proper distribution and assignment of action. Any office of the Secretariat receiving an AIG(A) report, or a request for comment on an AIG(A) report from any source other than FMO-31, should notify FMO-31 promptly to ensure proper compliance with the Secretary of Defense (SECDEF) processing requirements. This particularly applies to requests originated by Office of the Secretary of Defense (OSD) staff offices and transmitted directly to an ASN.

b. FMO-31 sets the suspense date required to enable the DON to comply with the 60 day suspense date. The suspense date assigned to the action office is the day the response is due in the ASN(FM&C) office. Reports and replies will be given priority handling to the extent necessary to meet the established suspense dates.

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2. Action Office Procedures. The office assigned action by FMO-31 for preparing a response to a report is responsible for:

a. Establishing a time frame for the preparation and review of the proposed DON response, allowing sufficient time for coordination with other interested offices, as necessary. The proposed response with backup data should be provided to the SECNAV mailroom at least 5 working days prior to the response due date.

b. Determining what input from external offices will be required stating clearly what is wanted and establishing a due date.

c. Arranging for any meetings desired with AIG(A) personnel, or for access to required AIG(A) working papers.

d. Preparing the proposed response and obtaining legal review, as necessary.

e. Coordinating the proposed response throughout the preparation period to ensure the response is not delayed, and a minimum of rewriting is required at the reviewing levels.

f. Monitoring the response through the coordination process until it is received by the SECNAV mailroom or FMO-31. The proposed response may be delivered to FMO-31 at least 7 work days prior to the due date.

g. Assuring that applicable amounts, discussed in a report as a savings or a cost avoidance, are specifically addressed in the DON response. The alleged savings or cost avoidance should be confirmed, refuted, or corrected, as appropriate. Conversely, increased costs which might result from a report finding or recommendation should also be addressed. Amounts that cannot be verified should be promptly resolved with the AIG(A) auditors.

h. Forwarding requests to FMO-31 for extension of OSD-established due dates. Such requests will be kept at a minimum.

i. Submitting a partial response when a complete response cannot be prepared within the time frame established. This

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partial response should cover the report findings, and to the extent feasible, provide a tentative position on the report and state when the final response can be expected. A partial response may be submitted prior to the suspense date, but in no event later than the suspense date assigned by FMO-31.

3. Preparing the Response. The action officer may prepare the DON response in either a "letter form" or in the format below. If the "letter form" is used, the action officer will prepare a briefing paper (or memorandum) to the appropriate ASN and a memorandum addressed to the AIG(A) (or OSD, if designated in the FMO-31 tasking) to be signed by the ASN. The memorandum should include a summary of the AIG(A) findings and recommendations applicable to the DON, and the DON position on each. If the format described below is used, the action officer will prepare: (1) a briefing paper to the appropriate ASN; (2) a transmittal letter to the AIG(A) (or OSD, if designated by the FMO-31 tasking) to be signed by the ASN, highlighting the most significant aspects of the DON position; and (3) the response, in the format below, as an enclosure to the transmittal letter. This format response should include a caption, a summary of AIG(A) findings and recommendations, and a statement of the DON position as detailed below.

a. Caption. The caption will read as follows:

Department of the Navy Response
to
AIG(A) (draft, final) Report of (date)
on
(Title)

b. Summary of AIG(A) findings and recommendations. Briefly summarize each of the AIG(A) findings, conclusions and recommendations to which the DON is responding.

c. Statement of DON position. This section should be devoted to a detailed, comprehensive statement reflecting DON's position and should be fully responsive to each finding, conclusion and recommendation in the report. If the DON is right, say so and prove it; if the DON is wrong, admit it and indicate corrective action taken, planned or proposed with an estimated completion date. If the DON nonconcurs with a finding,

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conclusion or recommendation, the response should set forth the basis for the nonconcurrence including the facts supporting such a position.

(1) If the findings in an AIG(A) report are objective and complete, state the report findings are correct. Refute inaccurate statements or unsound conclusions on the basis of fact or logic. Whenever feasible, dollar amounts discussed in a report as a savings or a cost avoidance should be specifically addressed in the DON response. The alleged savings or cost avoidance should be confirmed, refuted, or corrected, as appropriate. Conversely, resource increases that might result from a report finding or recommendation should also be addressed. The AIG(A), upon request, will make report working papers, or information in such papers, available to the DON. Therefore, ignorance of facts not in the report, but available from AIG(A), will not be an acceptable reason for lack of responsiveness in the reply. Avoid contentious language and tone, and opinions not supported by fact. Place a critical statement in proper perspective, relating it to the time frame of the reported deficiency and conditions existing at the time. Relate the condition to the magnitude of the functions, citing comparative figures where possible.

(2) Cover, specifically, each recommendation in the report of DON concern, unless individual treatment would be repetitious or impracticable. It is unnecessary to comment on those findings where the report itself indicates corrective action has been taken. Comment should be made on significant or critical findings, conclusions, or statements even though no recommendations are made.

(3) When comments indicate agreements with findings/recommendations include what, and when, corrective action has been initiated or planned, documenting the action taken by citing directive or other correspondence when possible. If specific action to correct a deficiency was taken prior to receipt of the AIG(A) report, so state and describe; if appropriate, document the action. Comments indicating disagreement shall explain fully the reasons for disagreements.

(4) Place FMO-31 on the "copy to" list of the proposed response.

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ACCESS TO AND RELEASE OF DON RECORDS AND REPORTS

Per references (a) and (c), as a general rule, AIG(A) auditors shall be granted expeditious and unrestricted access to all records, reports, investigations, audits, reviews, documents, papers, recommendations and other non-privileged material within any DOD component that a properly cleared auditor requests as being necessary to accomplish an announced audit objective. AIG(A) may copy these materials, as required.

No officer, employee, or service member of any DOD Component may deny the AIG(A) such access. Only SECDEF can deny certain types of information based on criteria that are listed in reference (b). Any problem regarding the release of information to an AIG(A) auditor should be referred to the designated action officer and FMO-31 prior to the submission of a formal objection to the release of information. A formal objection by DON personnel regarding release of information requires approval by SECNAV and must be submitted in writing via the appropriate chain of command and ASN(FM&C) no later than 15 days from the date of request.

While no officer or employee may deny the AIG(A) such access, all DON personnel are responsible for ensuring that requests for information are directed to the proper DON officials. For example:

- NAVAUDSVC draft audit reports, and associated work papers, are not releasable outside DON except on specific approval by the AUDGENAV per SECNAVINST 7510.7E. After publication, AIG(A) may obtain copies of the reports and work papers. AIG(A) requests for NAVAUDSVC audit reports and work papers should be submitted to the AUDGENAV. Reports released to AIG(A) must include, or be accompanied by, a statement as to DON's position and the status of actions taken.
- Release of Inspector General reports is coordinated and approved by the Naval Inspector General or CMC, as appropriate, per SECNAV Instruction 5430.57F. Included are other reports not available to the general public of inspections, investigations or audits which pertain to safety or the internal management, administration or operation of the DON.

Enclosure (3)